

EXHIBIT

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US Managed Care: Private Exchanges - On the Brink of Rapid Change; Takeaways from Aon-Hewitt Meeting On Nov 20

Ticker	Rating	CUR	23 Nov 2012 Closing Price	Target Price	TTM Rel. Perf.	Cash EPS			P/E			Yield
						2011A	2012E	2013E	2011A	2012E	2013E	
HUM	O	USD	66.69	95.00	-37.3%	8.46	7.58	9.20	7.9	8.8	7.2	1.5%
UNH	O	USD	53.92	74.00	5.2%	4.73	5.24	5.71	11.4	10.3	9.4	1.2%
CI	O	USD	52.76	62.00	10.8%	5.21	5.83	6.44	10.1	9.0	8.2	0.1%
AET	O	USD	42.99	52.00	-5.9%	5.17	5.23	5.53	8.3	8.2	7.8	1.6%
WLP	O	USD	56.06	73.00	-31.3%	7.00	7.57	7.82	8.0	7.4	7.2	2.1%
CVH	M	USD	43.40	42.00	30.0%	2.86	2.65	3.39	15.2	16.4	12.8	NA
HNT	M	USD	24.87	25.00	-28.4%	3.09	1.09	1.89	8.0	22.8	13.2	NA
SPX			1409.15			96.09	102.34	111.96	14.7	13.8	12.6	2.2%

O – Outperform, M – Market-Perform, U – Underperform, N – Not Rated

Highlights

We attended a meeting hosted by Aon-Hewitt on Nov 20 on their Private Healthcare Exchange Defined Contribution offering with Sears and Darden as the initial Employer Customers for 2013 with 100K lives. Employers are beginning to look at this as an alternative to their current Defined Health Benefits offerings given the potential for greater predictability of their financial burden and lower medical cost inflation as employees experience substantially more financial skin in the game.

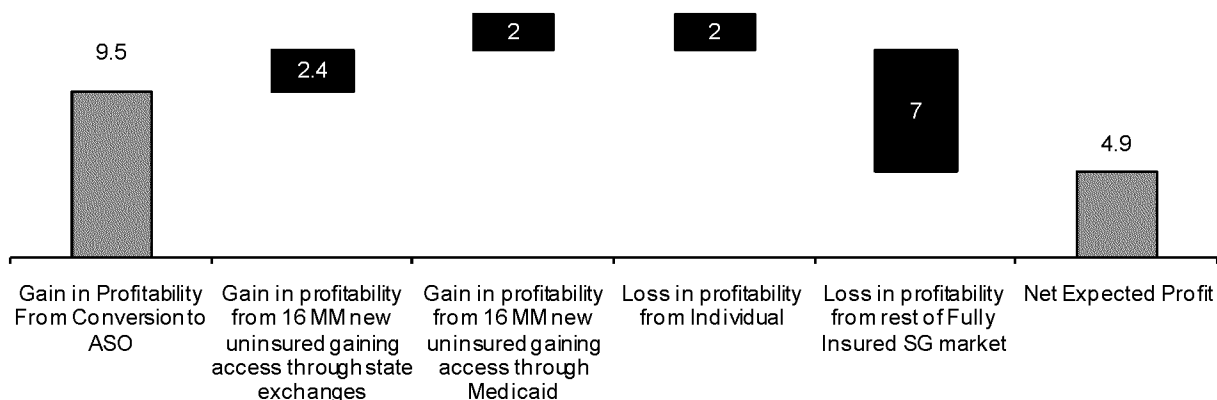
- **Post the meeting, we expect the pace of change to Private Defined Contribution Health Exchanges to be more rapid than we had anticipated before.** We see the potential for as many as 10-20 MM currently 70 MM+ self insured lives in the US converting to Private Exchange based Fully Insured offerings through the end of the decade. We expect that the Proof of Concept by Aon-Hewitt in 2013, and implementation of State-subsidized Exchanges commencing 2014 will act as catalysts and accelerate the pace of change (**Exhibit 1, 2, 3 and 8**). For comparison, the move from Defined Benefit pension to Defined Contribution 401K plans commenced in 1980 and took 25 years to reach 62% penetration of 401K offerings in 2005. 31% of employers had converted to 401K plans within the first 10 years.
- **Economics of conversion for the self-insured pool to the fully insured Private Exchange would be favorable for the Managed Care industry and offset some of the margin headwinds from increased regulation through ObamaCare (Exhibit 9, 10, 11, 12, 13).** The Managed Care industry will enjoy a higher profit pool with conversion of Self Insured to fully insured Private Exchange lives, and in the theoretical Maximum with 100% conversion could offer an incremental profit pool of as much as \$9.5B annual. Risk adjusters are a critical success factor to preserve operating margins and compensate for adverse risk. This along with the top line tailwinds of over \$3 B from access expansion to the uninsured could more than offset the hit to margins in the Individual Fully Insured business where we anticipate as much as a \$2B reduction in the operating Profit in Individual and as much as \$5-7 B in the Small group market given the regulatory headwinds to margins from ObamaCare of 2010.
- **On a company specific basis, however this could pose to be a disruptive change with capabilities increasingly shifting from a B2B marketing and servicing to a B2C realm.** Given the operating profit in a Private Exchange fully insured life is 4x that of a current Self insured life, the companies

See Disclosure Appendix of this report for important disclosures and analyst certifications.

Exhibit 9

Incremental Profit From Conversion To Fully Insured and Access Expansion to the Uninsured Could More Than Offset Margin Deterioration to Managed Care Individual and Small Group From Regulatory Headwinds With ObamaCare

Drivers Behind Gain In Industry Profit Pool (\$B)



Source: Bernstein Analysis

Exhibit 10

Operating Profit Per Life For Private Exchange Fully Insured Lives Is 4x Self Insured Though At Lower Margins

	Self Insured	Fully Insured
PMPM	\$25	\$300
Operating Margin Per Life	15%	5%
Annual Operating Profit	\$45	\$180
Incremental Operating Profit Per Life For Fully Insured	\$135	

Source: Bernstein Analysis

U.S. Managed Care